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FISCAL IMPACT STATEMENT

LS 6912 | **NOTE PREPARED:** Jan 12, 2003
BILL NUMBER: HB 1633 | **BILL AMENDED:**

SUBJECT: Income Tax Apportionment Factors.

FIRST AUTHOR: Rep. Welch | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill provides that, for purposes of the Indiana Adjusted Gross Income Tax, business income is apportioned based on the sales factor. This bill eliminates the property factor and payroll factor that are currently also used in apportioning income.

Effective Date: January 1, 2004.

Explanation of State Expenditures: The Department of State Revenue will have additional administrative expenses in revising tax forms, instructions, and computer programs to accommodate this change.

Explanation of State Revenues: Due to the recent corporate tax restructuring provisions in P.L. 192-2002ss, it is difficult to estimate the impact on this proposal. This bill will reduce Corporate Adjusted Gross Income Tax by an indeterminable amount beginning in FY 2004. Under the current statute, a company that conducts business in other states uses a three-factor formula to determine their Indiana Corporate Adjusted Gross Income Tax liability. The formula utilizes property, payroll, and sales to allocate business income to the state. The current formula is the following:

$$\left[\frac{\text{Indiana Property}}{\text{Total Property}} + \frac{\text{Indiana Payroll}}{\text{Total Payroll}} + 2\left(\frac{\text{Indiana Sales}}{\text{Total Sales}}\right)\right] / 4$$

This bill would eliminate the property and payroll factors in the apportionment formula along with the double weighting of the sales factor. The amount of a company's adjusted gross income would be determined by a single-factor formula which measures the percentage of Indiana sales to their total sales. The new formula would be the following:

Indiana Sales
Total Sales

The change in the apportionment formula, as proposed by this bill, would decrease corporate income tax liabilities by an indeterminable amount. This bill is effective for the tax year beginning January 1, 2004, and would impact revenue collections starting in FY 2004 due to adjustments in estimated quarterly payments. The December 18, 2002, Revenue Forecast estimates Corporate Income Tax revenue collections to be $560.5 M in FY 2004 and $580.6 M in FY 2005.

Corporate income taxes are deposited in the General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: Department of State Revenue.

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